

Message Text

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PAGE 01 STATE 086647
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FM SECSTATE WASHDC
TO AMEMBASSY TEHRAN

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E.O. 11652: N/A

TAGS: EFIN

SUBJECT: DOUBLE TAXATION TREATY
REF: TEHRAN 2993

1. WE WOULD WELCOME RESUMPTION OF INCOME TAX TREATY
NEGOTIATIONS WITH IRAN AND AGREE WITH EMBASSY SUGGESTION
THAT A FORMAL PROPOSAL TO THAT EFFECT BE CONVEYED TO GOI.
DRAFT TEXT OF A PROPOSED CONVENTION WHICH EMBASSY
TRANSMITTED TO GOI IN JUNE 1976 WOULD BE APPROPRIATE BASIS
FOR THE DISCUSSIONS. IT SHOULD TAKE CARE OF THE PROBLEM
OF USG EMPLOYEES OF THE JOINT COMMISSION. THE DRAFT WILL
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NEED MODIFICATION DURING NEGOTIATIONS, AS MANY ISSUES WERE
LEFT OPEN OR UNRESOLVED, BUT FOR DISCUSSION PURPOSES THE
DRAFT AS IT STANDS IS ADEQUATE.

2. TWO POTENTIAL PROBLEMS ARE THE TREATMENT OF IRANIAN
TAXES ON U.S. OIL COMPANIES, AND THE ISSUE OF A U.S. TAX
INCENTIVE TO U.S. INVESTMENT IN IRAN. THE QUESTION OF OIL
TAXES NEED NOT BE RAISED IN THE EMBASSY'S NOTE, BUT THE

NOTE SHOULD MAKE CLEAR THAT THE UNITED STATES POSITION ON INVESTMENT INCENTIVES BY TREATY ,E.G., A SO-CALLED "TAX-SPARING" CREDIT) CONTINUES TO BE NEGATIVE. THIS WAS UNDERSTOOD BY GOI DURING EARLIER NEGOTIATIONS, BUT WE SHOULD MAKE CLEAR THAT SUCH AN INCENTIVE REMAINS

IMPOSSIBLE. THERE ARE OTHER ISSUES ON WHICH WE DISAGREE WITH IRAN'S POSITION AS EXPRESSED IN THE 1975 MEETINGS, SUCH AS THEIR DISALLOWANCE OF CERTAIN EXPENSES PAID ABROAD, THEIR TAX ON SERVICES PERFORMED IN THE UNITED STATES BUT PAID FOR FROM IRAN, AND THEIR RELUCTANCE TO COMMIT THEMSELVES TO NONDISCRIMINATORY TAXATION (WHICH THEY SUGGESTED COULD BE DONE IN EXCHANGE FOR TAX-SPARING). WE WOULD HOPE TO WORK OUT SOLUTIONS TO THESE ISSUES THAT WOULD BE MUTUALLY ACCEPTABLE.

3. WOULD APPRECIATE RECEIVING COPIES OF IRANIAN INCOME TAX LAWS ENACTED SINCE THE APRIL 1975 MEETINGS.

4. THE FOREIGN RELATIONS COMMITTEE VOTED FAVORABLY ON FEBRUARY 28, 1978 ON THE PROPOSED INCOME TAX TREATIES WITH THE UNITED KINGDOM AND SOUTH KOREA. IT DEFERRED A DECISION ON A TREATY WITH THE PHILIPPINES AT THE REQUEST OF U.S. AIRLINES WHICH OBJECT TO THAT TREATY BECAUSE IT DOES NOT PROVIDE A RECIPROCAL EXEMPTION OF AIRLINES. TIMING OF LIMITED OFFICIAL USE

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A DECISION ON THE PHILIPPINES TREATY IS UNCERTAIN. THE OTHER TWO TREATIES ARE EXPECTED TO BE VOTED ON BY THE FULL SENATE AFTER THE PANAMA CANAL TREATIES. THE U.K. TREATY CONTAINS A LIMITATION ON THE USE OF A UNITARY APPORTIONMENT FORMULA BY STATES IN TAXING U.K. CORPORATIONS WHICH HAVE U.S. SUBSIDIARIES. THIS IS STRONGLY OPPOSED BY THE STATES AND MAKES THE DECISION ON THAT TREATY UNCERTAIN. THE KOREAN TREATY IS EXPECTED TO BE APPROVED. (IT DOES NOT CONTAIN AN INVESTMENT INCENTIVE). VANCE

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